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Secret

DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Effects of the Tet Offensive on the Economy of South Vietnam as of 15 February 1968

USAID review

State Dept. review

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
16 February 1968

INTELLIGENCE MEMORANDUM

The Effects of the Tet Offensive on the Economy of South Vietnam as of 15 February 1968

Summary

The ability of most Vietnamese cities to resume relatively normal economic activity at a quick pace reflects the relatively small amount of lasting economic damage resulting from the Tet offensive. It seems clear that the Viet Cong chose deliberately not to undertake any systematic attack on economic facilities. This policy in part stems from a desire to avoid alienation of the public. It also shows a preference by the Viet Cong to keep intact an economic system on which they rely for support and which they may have had some hopes to control if the offensive were more successful. The speed of recovery, at least in the short-term, was also facilitated because food stocks are generally adequate, public utilities are operating in most cities, and local government officials have been reasonably effective in organizing relief programs.

Although most of the indicators of short-term recovery look good, the Tet offensive has caused other problems that cannot be overcome so easily. Movement between cities is recovering more slowly, and little is known about conditions in the countryside. An estimated 460,000 persons became refugees as a result of the offensive. Even though many will eventually return home, a sufficient number will remain to pose a strong test

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of the ability of the government to house and feed them. Moreover, highway interdictions -- particularly bridges -- and losses resulting from harvesting delays could reduce the availability of rice in the cities. The South Vietnamese will undoubtedly require increased levels of economic assistance as their own reserves are diverted to solving the problems created by the Tet offensive.

Although the economy should weather the Tet offensive without extreme disruptions, a future offensive that included a concerted attack against the economy would almost certainly result in severe and prolonged economic disruption in the urban areas.

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General

1. As of 15 February, economic activity in most South Vietnamese cities was recovering rapidly from the effects of the Tet offensive. Some cities suffered severe damage, many people were made homeless, and there were shortages of food and medicine. Nevertheless, the Tet offensive did not create the chaos that might have been expected, and much of the disruption was short lived. Some cities, such as Hue and Ban Me Thuot in the north and My Tho, Vinh Long, and Ben Tre in the Delta, will take a longer time to recover because the intensive fighting in these areas caused heavy destruction.

2. The economy's relatively quick recovery is explained partly by the fact that the people's needs are simple, government rice stocks were large, and most people had stocked up on food supplies in preparation for the Tet holiday. It is probably more significant, however, that the enemy did not target and probably deliberately avoided damaging the economic infrastructure in order to minimize popular resentment or to keep the economy intact in anticipation of a greater military success.

3. Over the long term, the offensive may have more disruptive effects on rice production, allocation of manpower, and economic policy. It is clear that South Vietnam's rice needs for 1968 will have to be re-evaluated. Early estimates of the 1967-68 crop indicated a slight increase in output this year, but the harvest now under way probably will be adversely affected by the current disruptions. As a result, imports may have to be significantly higher than the planned 850,000 tons.

4. In addition to providing more rice, the United States may have to assume a larger financial burden for economic and pacification programs. The relief and recovery efforts by the South Vietnamese government will require reallocation of funds and manpower. Revolutionary Development (RD) cadres are already being assigned to assist in the care of refugees. The government has announced that $5 million has been allotted to the GVN/US task force headed by Vice President Ky for relief and reconstruction. Although some of this money

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reportedly will come from US aid funds, most of it will come from Vietnamese government funds allotted to the pacification program.

5. As a result of the offensive, President Thieu on 9 February asked the National Assembly to give him the power to make economic decisions by decree for one year. Thieu reportedly would use this power to increase excise and sales taxes and close dance halls and bars. The power of decree may also be used to crack down on profiteering and to set price controls.

Food Supplies

6. Reports of food shortages have come mainly from Quang Tri and Hue in the I Corps area, Nha Trang in the II Corps area, and from the Delta city of Vinh Long. Thus far, no food shortage of any consequence has been reported in the III Corps area. US officials report that sufficient food is available in Saigon, but distribution is difficult. Fortunately, most people had stocked up on food supplies in preparation for the Tet holiday. On 9 February, rice stocks in Saigon-Cholon warehouses totaled 104,000 tons with another 35,000 tons on ships in the port. One of the warehouses has been reported damaged and another containing 5,000 tons was reportedly looted with some Viet Cong assistance. The rice available, however, is sufficient to meet the needs of Saigon and the rice-deficit areas in the north for more than a month. If this rice cannot be transported, however, shortages could develop, particularly in the I and II Corps areas. There is no current information on stocks in central Vietnam. At the beginning of January, this area reportedly had on hand about 37,000 tons, or almost one month's supply. Moreover, a ship carrying rice arrived in Qui Nhon on 25 January, another arrived in Nha Trang on 30 January, and another in Da Nang on 31 January.

Prices

7. Food prices soared during the early days of the offensive, but as more shops and marketplaces opened, prices began to decline somewhat. In Bien Hoa city, for example, prices of most foods on 4 February were said to be three to five times higher than those just before Tet, and no

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chicken, meat, or vegetables were available. By 7 February, however, the food supply situation in Bien Hoa was said to be near normal, although prices were still up 50 to 75 percent. USAID officials in Saigon did not take their regular comprehensive weekly survey of prices. They have reported, however, that spot checks on 13 February showed the prices of domestically grown rice running 50 to 65 percent above the pre-offensive level and the price of fish about double. Prices of sugar and condensed milk, however, were not significantly higher than pre-Tet levels. Free rice is being distributed at 75 refugee centers, and imported US rice is being sold at pre-Tet prices to other civilians from distribution points and trucks in various parts of the city. Moreover, Vice-President Ky has ordered 2,000 tons of rice, instead of the previous 200 tons, to be distributed daily in Saigon as well as 1,300 tons of frozen pork. These measures are designed to prepare Saigon residents in case of another attack. The distribution of food through normal commercial markets was to have resumed by 14 February.

Public Service and Private Production

8. The fighting has interrupted power and water supplies in many cities, but damage to utilities generally has been slight. It seems clear that the enemy chose not to target these and other economic installations. Apparently no attempts were made to destroy any port facilities in the country. The large POL depot at Nha Be near Saigon was also untouched, and Esso began running convoys of trucks carrying gasoline and kerosene into Saigon by 4 February. Shortages of POL, however, are reported in some Delta provinces. Scenes of heavy fighting, such as Hue and Ban Me Thuot, reported a lack of both power and water. In Saigon, US officials stated on 9 February that power facilities were operating at 70 percent of capacity, which was ample because of reduced industrial demand. The Saigon water supply was cut on 4 February, but only for a few hours. Garbage piling up in city streets is a major health hazard, but collection and disposal have been started.

9. The worst report of damage to production facilities occurred near Saigon, where about 60

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percent of the buildings and 80 percent of the equipment of the two largest textile firms in South Vietnam were destroyed. The logistics command post for the Viet Cong attack reportedly was located near these plants. The general manager of the two sister companies estimated that repairs would take many months. These plants are reported to be the two largest employers of workers in the private sector of the economy. They account for about one-half of the output of the textile industry and about 5 percent of total industrial output.

Transportation

10. The interdiction of roads, the chief transportation network in South Vietnam, was confined mostly to the Delta, the Saigon area, and the northernmost part of South Vietnam (see the map). These interdictions presumably were intended to prevent movement of Allied military forces rather than to disrupt the economy. Officials in the IV Corps area have stated that as of 10 February, Route 4, the main route for carrying food products from the Delta to Saigon, is open from My Tho to Saigon and partially open between My Tho and My Thuan. The My Thuan ferry across the Mekong River was due to resume operation soon. Police checkpoints along the road, however, reportedly were restricting movement of goods as well as refugees. There is evidence that as of 8 February, some food was moving into Saigon from the Delta. Merchants and farmers in the Delta undoubtedly are willing to put up with checkpoints and to risk traveling in order to get rice and other produce to Saigon to take advantage of the current high prices. Other highways are less secure than Route 4. Early in the offensive, for example, 51 Viet Cong checkpoints were reported along Route 1 between Xuan Loc and Bien Hoa. Officials report that Route 15 from Saigon to Vung Tau is open sporadically, and some fresh fish is believed to be arriving in Saigon. Route 20 is said to be open in Long Khanh Province, but impassable in Lam Dong Province, and no vegetables are moving from Da Lat to Saigon. Blown bridges on Route 11 have made through traffic between Da Lat and Phan Rang impossible. Route 1 in the I Corps area interdicted in several places.

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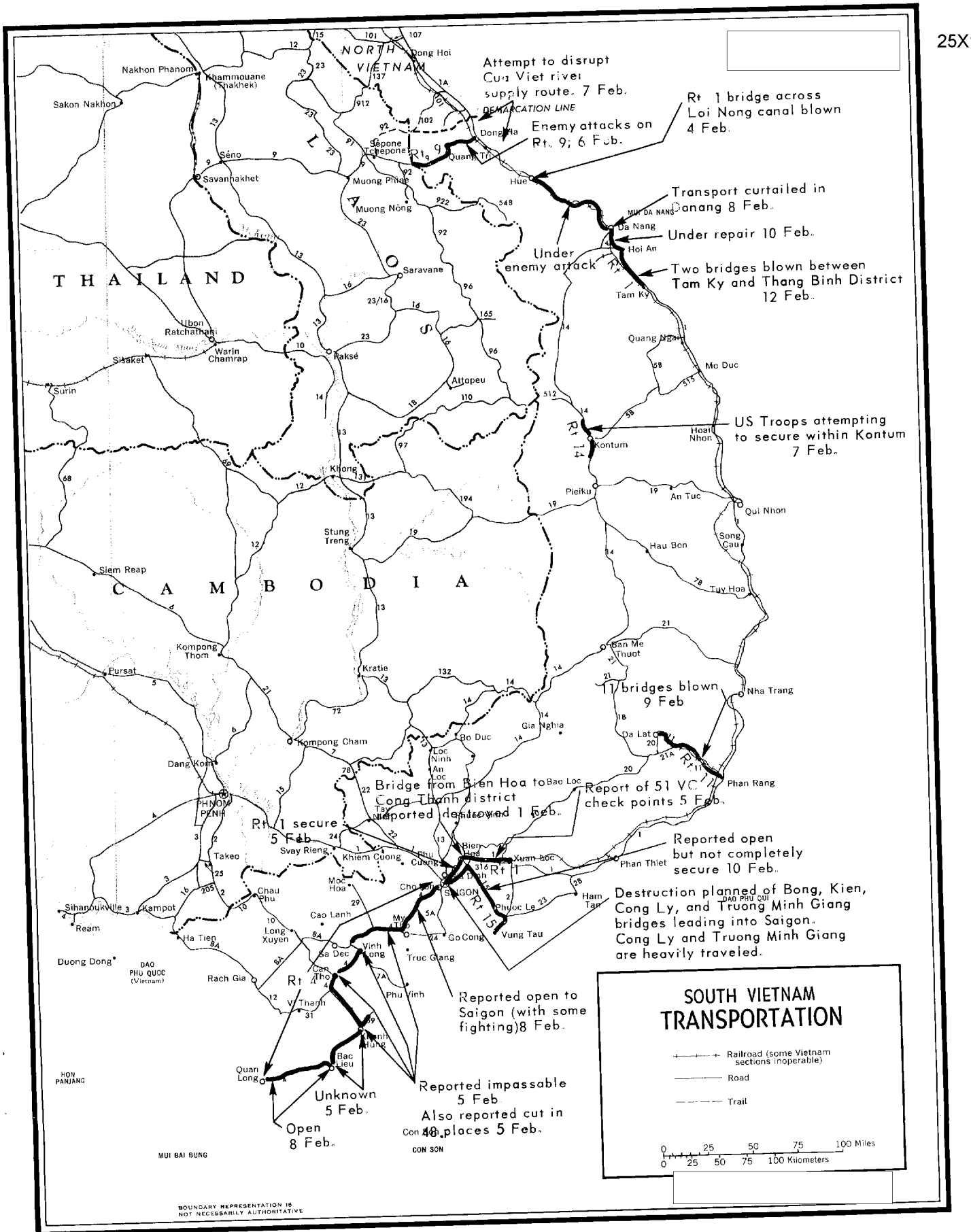

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11. Commercial flights, both domestic and international, had been resumed at Tan Son Nhut airport by 14 February. Embassy officials indicated that the delay in restoring service was due to employees' difficulties in getting to work and to curfew restrictions.

Refugees

12. According to incomplete reporting, there are at present, as a direct result of the Tet offensive, an estimated 460,000 refugees throughout South Vietnam. These are in addition to the 700,000 South Vietnamese who were living in refugee camps at the outbreak of the Tet offensive. More than 170,000 of the new refugees are reportedly located in the Saigon - Gia Dinh area and another 42,000 are in the surrounding III Corps area. Estimates of the number of refugees by Corps area as of 14 February are shown in the following tabulation:

Area	Refugees
I Corps	65,000
II Corps	66,000
III Corps	42,000
IV Corps	114,000
Saigon-Gia Dinh	173,000
Total	*460,000*

13. Cities in the IV Corps area reporting large numbers of refugees are the provincial capitals of Ben Tre, My Tho, Can Tho, and Chau Phu. These large numbers of homeless South Vietnamese could, for the first time, pose a refugee problem for the Delta area. Some easing of the problems is expected as these refugees reach the homes of relatives or return to their homes. It has been observed that some reversal has occurred in the flow of refugees from the country to the city as urban residents fled provincial capitals to avoid the fighting.

14. Ban Me Thuot and Da Lat, two of the hardest hit provincial capitals in the II Corps

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area, reported more than 20,000 and 13,000 refugees, respectively. Da Lat has reported that no major problems are expected in handling the refugees. But the situation in Ban Me Thuot is reported to be serious, as the water supply is running low and South Vietnamese officials are having a difficult time coping with the large number of refugees.

15. In Hue, where fighting has been particularly harsh, an estimated 30,000 persons account for almost one-half of the refugees in the I Corps area. Although no estimates are available, it is apparent that Quang Tri Province has a sizable number of refugees resulting from Viet Cong sweeps in RD areas. The problem has been intensified by the ineptness of Quang Tri officials in administering relief to the refugees from these villages.

Housing

16. Widespread street-to-street and house-to-house fighting as well as Allied shelling and bombing of Viet Cong strongpoints did severe damage to civilian housing in several cities. As of 11 February, an estimated total of about 37,000 homes had been destroyed throughout South Vietnam. Damage to housing thus far appears to have been heaviest in the IV Corps area, where an estimated 10,600 homes were destroyed. Several other cities in the IV Corps area reported heavy damage: 30 percent of the city of Vinh Long (the capital of Vinh Long Province), one-third of My Tho (the capital of Dinh Tuong Province), and one-half of the buildings in Ben Tre (capital of Kien Hoa Province) reportedly have been destroyed. The only reports thus far of efforts at repair have come from My Tho. Otherwise, the homeless have moved in with relatives and friends. Destruction to housing, although heavy, was far smaller than the flow of refugees, which suggests that many of the refugees will return home when the fighting subsides and curfews are lifted.

Civilian Casualties

17. There are few reports from the I, II, and III Corps areas on the estimated number of South

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Vietnamese civilians killed during the Tet offensive. As with the number of refugees and houses destroyed, civilian casualties, according to the most recent reports, seem to be concentrated in the IV Corps area. By the end of the second week of the Tet offensive, more than 3,000 civilians were reported killed and more than 19,000 wounded throughout the country. These are rough, preliminary estimates, and it is doubtful that the extent of injuries to civilians will ever be known. In any case, the number of casualties probably will be only a small share of the labor force and will not have any widespread impact on economic recovery programs.

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